

HOUSE FINANCE COMMITTEE

March 8, 2021

1:34 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Bryce Edgmon
Representative DeLena Johnson
Representative Andy Josephson
Representative Bart LeBon
Representative Sara Rasmussen
Representative Steve Thompson
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Paloma Harbour, Fiscal Management Practices Analyst, Office of Management and Budget, Office of the Governor.

PRESENT VIA TELECONFERENCE

Kelly Tshibaka, Commissioner, Department of Administration; Kate Sheehan, Director, Division of Personnel, Department of Administration; Thor Vue, Chief Procurement Officer, Procurement and Property Management, Department of Administration; Leslie Isaacs, Administrative Service Director, Department of Administration, Office of Management and Budget, Office of the Governor; Ian Smith, Managing Director, Alvarez and Marsal; Dom Pannone,

Administrative Services Director, Department of Transportation and Public Facilities, Office of Management and Budget, Office of the Governor.

SUMMARY

HB 69 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 69 was HEARD and HELD in committee for further consideration.

HB 71 APPROP: MENTAL HEALTH BUDGET

HB 71 was HEARD and HELD in committee for further consideration.

PRESENTATION: PROCUREMENT AND HR CONSOLIDATION BY THE DEPARTMENT OF ADMINISTRATION

PRESENTATION: CENTRAL SERVICES and RATES OVERVIEW BY THE OFFICE OF MANAGEMENT and BUDGET

PRESENTATION: DIVISION OF FACILITIES SERVICES BY THE DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

Co-Chair Foster reviewed the agenda for the meeting. He indicated there were several presentations on the same topic. He explained that the material was technical in nature. There were some actions that would normally be taken up at the subcommittee level. However, because action taken by one subcommittee required corresponding action in another subcommittee, he was pulling them into the full finance committee. He elaborated that in the past, issues had arisen because subcommittees took conflicting actions that had to be corrected later. He reviewed the topics of the presentations. He invited Neil Steininger and Paloma Harbour from the Office of Management and Budget (OMB) to the table to begin their presentation.

#hb69

#hb71

HOUSE BILL NO. 69

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making reappropriations; making

supplemental appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 71

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; making supplemental appropriations; and providing for an effective date."

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^PRESENTATION: CENTRAL SERVICES and RATES OVERVIEW BY THE OFFICE OF MANAGEMENT and BUDGET

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NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced the PowerPoint presentation: "Central Services and Rates Overview." He began by providing an overview of central services on slide 2. He relayed that any organization, regardless of size, had to manage how they performed and paid for back-office functions for indirect costs. Often, they were referred to as indirect overhead costs, back-office function costs, or general administrative costs. Although the services were required, they were not considered direct or core services of an organization - the services were functions that made core services possible.

Mr. Steininger continued that the slide showed a list of areas within the state budget and within state functions that helped with the role of central services. He highlighted the management of state facilities, state procurement, accounting, human resources (HR), and information technology (IT) as examples. They were not primary functions but were necessary in order for the state to perform its duties. He noted a usual tension around allocating costs to state programs that were core to the functioning of state government. His presentation would discuss a smaller subset of services.

Mr. Steininger relayed that each state agency performed many of the back-office functions in-house. For example,

each agency had a finance officer, a procurement officer, and an HR manager. He explained that when OMB looked at rates managed by OMB and certain central functions, it focused on functions that had been taken out of the agencies' hands and centralized within one of the following departments to provide service for all agencies: the Department of Administration (DOA), the Department of Transportation and Public Facilities (DOT), the Department of Education and Early Development (DEED), the Department of Law, the Department of Revenue (DOR), and the Department of Health and Social Services (DHSS). The slide showed a list of central services provided to all state agencies and the department that was providing each service.

Mr. Steininger continued that each service fell within a certain department because of there being a nexus to the core service for that agency. He pointed to DOT as an example. The Department of Transportation and Facilities Maintenance, whose core service was to maintain facilities, was responsible for maintaining the facilities for all agencies. He would provide additional details later in the presentation.

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PALOMA HARBOUR, FISCAL MANAGEMENT PRACTICES ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, reiterated that there was a natural tension with central services based on how their costs were allocated to various programs. The Office of Management and Budget had oversight of the cost allocation methods in order to understand the impacts of central services on program budgets. In managing a central service, a pressure existed between service levels and the level of cost effectiveness. The Office of Management and Budget was responsible for ensuring that the costs were contained while adequate services were provided. She reported that OMB had met with central service agencies and the departments to help find a balance and to work through issues as they arose.

Ms. Harbour continued that OMB aligned the budget for the central service agencies with what the agencies or programs would be charged to cover a certain level of service. Since the information would be known at the beginning of the budget process, the departments could make a plan in which all parties could have a say.

Ms. Harbour discussed the current rate system on slide 4. She explained that the central service costs for the state were allocated to programs via rates. They were often referred to as "charge-back rates" because the programs were being charged for the services. She noted there was a lack of transparency on the impact of the rates to the programs. The lack of transparency was not intentional. Rather, the rates had been developed over time, were cumbersome, and appeared in a number of different places. She suggested that unless a person was a bit of a nerd, they would not dedicate the time to understanding all of the various rates and the complexities behind them.

Ms. Harbour moved to slide 5 which demonstrated the complexity of the rate system. There were many different rates across the state. She pointed to the box labeled, "Other agency fee-based rates." She explained that there were varying fees across different state agencies. She thought the slide was a good representation of the largest rates impacting all agencies. She highlighted that risk management was spread in two different ways. Risk management for Worker's Compensation was spread based on salary, and risk management for property and other coverage was spread based on the property owned by agencies. One rate might be spread in different ways. For example, there were 3 rates spread by position control number (PCN). However, the 3 rates counted positions differently. It was a convoluted system which she had been tasked with simplifying.

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Ms. Harbour turned to the spreadsheet on slide 6: "Rates - Current System." She noted that the slide was not meant to pick on DOA, DOT, or the Public Building Fund. It was a good example of a very complicated rate. The state had to manage all of the public owned facilities within the Public Building Fund taking into account operating costs, depreciation costs, and spreading costs over occupying agencies. She also mentioned the transition from DOA to DOT for dual management. Because of the complications she mentioned, the rate for FY 19 was not released until June 2019, the last month of the fiscal year. It took a significant effort by both agencies to work together to understand the costs and rates and to distribute the information to the other agencies. She reiterated that it

had been a transition year that resulted in complications and a late impact to programs.

Mr. Steininger furthered that internal management of the rates and costs had been an internal challenge. Direct service delivery had caused friction and challenges for all agencies of the state. As Ms. Harbour had pointed out, not knowing the rate until the end of the fiscal year created uncertainty for those actually trying to provide direct services the public relied on. The idea was to provide direct services to the public and to create certainty for program managers by identifying the cost of maintaining their operations. The last few slides attempted to illustrate the current state of the centralized service efforts. As more services were transferred to centralized operating services, the state needed to address certain problems.

Ms. Harbour reviewed the principles for moving forward with rates on slide 7. The governor was proposing to fix some of the existing problems by transitioning management of certain services to one agency rather than multiple agencies. Overall, the goal was to simplify rates; have fewer rates, make the processes for distributing them across agencies easier to understand, and to make rates more predictable for planning purposes. The Office of Management and Budget planned to base rates on a 3-year average to increase predictability. She provided some examples of predictability and the benefits of the change. The new plan would result in a more transparent system. She noted that in the coming year certain services were slated for transfer.

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Mr. Steininger advanced to slide 8 listing the impacts of the budget under consideration. Many of the ways in which OMB managed rate structures was internal to the executive branch in its management of the services and interactions between departments. One area impacting the FY 22 budget had to do with completing the transition of some additional centralized services including personnel management and procurement. Both were being transferred to DOA. All procurement officers and HR managers would be included in the transfer. He indicated that Commissioner Tshibaka would be providing the committee with more detail about the change. He noted that OMB was looking at how to

successfully transfer services over to DOA and to ensure the departments paid their fair share of the costs of procurement and HR. The Office of Management and Budget was also responsible for making sure DOA had the resources it needed to provide procurement and HR services at an appropriate level.

Mr. Steininger indicated that OMB was transferring public buildings and leasing from DOA to DOT. Centralizing all facilities services within DOT would be a multi-year transition. He reported that as OMB transitioned leasing services to DOT, it discovered that DOT had been paying for the direct cost of leases for several agencies. As part of the transition, OMB was placing the money to pay for the leases directly into programs in order to charge a fair rate for leasing by square footage. By doing so, it ensured that agencies had the money to pay for it. It also ensured that the cost of the service was paid for by the consuming program. The budget document contained some true-up adjustments to costs that had not been in the appropriate place.

Mr. Steininger offered that OMB was expanding the utilization of lapsing general fund balances for some of the rates. One of the challenges that agencies had was the large peaks and valleys. The department was looking to smooth out the rates over time. Several rates already had built-in smoothing mechanisms. Ms. Harbour noted risk management which had a smoothing mechanism that utilized lapsing general fund dollars to capitalize the fund. It allowed insurance costs to level out based on a 3-year average. The Office of Management and Budget was looking to expand the option to smooth out additional rates. He noted the importance of smoothing the funding over a 3-year period. In the instance of a peak year, the smoothing of the budget would occur over the interim after the budget year ended. He provided an example. He noted that a spike in a central service rate would require an agency to look at direct services. Smoothing ensured that agencies providing services to the public would not have to accommodate a spike through a reduced level of service. He relayed that OMB was looking to smooth out rates to provide some predictability.

Mr. Steininger reported there would be additional transparency in the state's budget system by showing some of the rates with additional granularity. He provided an

example. The system would allow for more detailed scrutiny of the budget.

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Mr. Steininger reviewed the use of lapsed appropriations on on slide 9. One of the proposals in the FY 22 budget was to utilize more of the lapsed appropriations for rate smoothing. The table showed the 4 areas OMB was proposing to provide lapsed funding to benefit rates. Three of the areas (the Working Reserve Account, the Group Health and Life Benefits Account, and the State Insurance Catastrophic Reserve Account) had utilized lapsed funding previously. The Group Health and Life Benefits had not required the funding for a couple of years. However, the other two accounts had used some in the past. The numbers for FY 21 reflected the maximum amount allowed. The Working Reserve Account, for example, could use up to \$5 million in lapsed balances. He reported that, based on history, the accounts did not come close to the maximum amounts. The State Insurance Catastrophe Reserve Account could use up to \$10 million. He highlighted the grey bar representing the smoothing of centralized services. It was a new addition to the waterfall - the lapsed funding going to rate funds. The Office of Management and Budget was proposing to utilize up to \$5 million for rate smoothing. He hoped the use of the money would not be necessary in subsequent years. He concluded his presentation and was available for questions.

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Representative Wool reiterated what he heard in the presentation. He hoped that by centralizing services the state would see a savings. He believed he heard that certain tasks from DOA and DOT would go to central services. He did not believe central services would be a department and asked for clarification about the different terms being used such as departments, agencies, divisions, and central services. He mentioned the notion that a department might pay more for centralized services than if they remained within individual departments. He recalled hearing in the subcommittee process that each department would be billed 1.5 percent of whatever was procured for procurement services fees. He wondered if the change was designed to save individual departments money. He also wondered if there was an administrative cost that would add to a procurement expense.

Mr. Steininger responded that centralized services could mean services centralized within one agency but providing services to all agencies, one entity within a department provided accounting for all of its divisions, or it could be a reference to services provided by DOA.

Mr. Steininger addressed Representative Wool's question about potential savings for the state. He reported that efficiency was a consideration when it came to centralizing services. By bringing all of the procurement staff under one roof, employees could share work. One agency might not require a full-time employee to do their procurement resulting in slack capacity. The slack capacity would allow for the same amount of work to be done with less people. He explained that reductions were not reflected in the state budget because it was unclear where the slack capacity resided. It would become apparent once employees were centralized. One of the pitfalls OMB experienced with previous centralization initiatives was that it tried to take the savings prior to centralizing employees. By doing so, it set an expectation of savings, created significant friction, and slowed the transfer of people to different areas. The Office of Management and Budget was allowing for the transition of centralized services with the expectation that over time more work would be done with less.

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Representative Wool wondered about a person spending half of their time doing tasks related to the Department of Fish and Game (DFG) and the other half on tasks related to DHSS. He asked how the work load would be dispersed. He could not see the potential savings.

Mr. Steininger responded that issues would be handled on a case-by-case basis. He noted that with several centralization initiatives occurring at the same time, OMB was actively working with agencies to determine how many positions would be needed and how to dispense the work. He admitted there were challenges that complicated the transition.

Representative LeBon thought he understood what OMB was attempting to accomplish. He relayed that the bank he worked for previously spread out the different functions such as HR, accounting, buildings and properties, and

marketing among the branches. In the banking business the bank reviewed the allocations annually. He encouraged the state to do the same. He commented that he was befuddled by the last bullet on slide 8. Ms. Harbour asked for clarification about Representative LeBon's befuddlement. Representative LeBon did not fully comprehend the last bullet.

Ms. Harbour responded to Representative LeBon's first remarks. She indicated that the review of rates and the allocation methods used for rates would be reviewed annually. It would occur as OMB developed the state's budget so that programs would be aware of their allocations.

Mr. Steininger responded that the last bullet [on slide 8] addressed the utilization of lapsing general fund balances at the end of each fiscal year. Agencies were budgeted a certain amount of dollars in unrestricted general fund dollars. Agencies did not always spend the full amount. There were a couple of areas in the budget where the unspent money was utilized. The last bullet indicated OMB was proposing to use some of the lapsing UGF balance for rate smoothing purposes. He was suggesting that up to \$5 million could be used for unforeseen events.

Representative LeBon admitted there were no lapse funds in the private sector banking business which he admitted could be the root of his confusion.

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Vice-Chair Ortiz noted there had been an effort to centralize services that had occurred over the past couple of years or more particularly with IT services. There was also an effort taking place to centralize facilities management under DOT. He wondered if that effort had been going on for the previous several years. Mr. Steininger replied that the centralization of facilities maintenance within the Division of Facilities Services had been ongoing for 4 or 5 years.

Vice-Chair Ortiz asked if the same timeframe applied to centralizing procurement within DOA. Mr. Steininger responded, "Correct."

Vice-Chair Ortiz asked if there had been an ongoing analysis about the effectiveness of delivering services. An agency might want to have more direct say and control over their particular facilities they had managed previously. For example, the Department of Fish and Game might see the need for repairs to a particular facility but would not have input if the management of the facility resided with DOA. He asked if the department would lose the ability to effectively manage a facility that it was previously responsible for.

Mr. Steininger reported that one of the things that had been an issue with the previous system was that it was difficult to assess the area of highest need among all departments. For example, an individual department might view its specific facility as having the highest need. With a decrease in the amount of available funding, the state needed to be able to prioritize the maintenance demands across agencies. Each agency would still have money in their operating budget for normal operations and maintenance of facilities. However, having the management centralized would help in being able to assign the use of statewide pots of money. In terms of an individual agency having some control over the management of their facilities, it was important that the agencies and centralized services had a customer service attitude. Centralized services would be accountable to the agencies and the program managers. He admitted there was direct tension in the model being proposed.

Ms. Harbour clarified that the governor's proposed budget was taking an already centralized service of public building fund management and lease management from DOA and moving it to DOT. Currently, the public building fund was split between DOA and DOT which caused difficulties because of management being shared between the two agencies. In terms of leasing management, some leases were being managed by DOA and some by DOT. She opined that it did not make sense for them to be managed in two places. She reiterated that the services were already centralized.

Co-Chair Foster reminded the committee of the other presentations for the afternoon.

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Vice-Chair Ortiz asked if monies were already appropriated for the different agencies to manage their facilities. He wondered if OMB was talking about different monies that were for statewide use.

Mr. Steininger replied that the money sitting in a state agency such as DEED for the maintenance of the state library would remain in the agency. The state wanted to be able to track the costs to run its facilities. Employees of DOT would perform the work, and DEED would pay DOT for its services. There were several areas in which the state had smaller facilities near each other. It was more efficient to have someone managing the maintenance of a portfolio of properties even though they that might cross different agencies. The money to pay for the work sat in the respective agency's budget. However, DOT would manage and perform the work. There were additional pots of money for statewide deferred maintenance that could be applied across agencies.

Co-Chair Foster acknowledged Representative Thompson at the table.

Representative Josephson referred to slide 9 which stated that the total FY 21 projected UGF lapse was \$110 million. At the bottom of the slide the actual lapsed funding figure was \$45 million. He asked for clarification.

Mr. Steininger replied that the \$45.7 million was the difference of \$110.7 million in projected lapse less the maximum amount in lapse funding that could be used for rate smoothing as well as a proposal for Medicaid. He noted that the projected UGF lapse of \$110 million was from the March 4, 2021 lapse report from OMB. It did not consider things such as additional COVID-19 support money from the federal government which would dramatically change what might lapse in programs like Medicaid.

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Representative Josephson did not understand why Medicaid Support was included on the slide.

Mr. Steininger responded that Medicaid support was included to reflect all of the areas OMB had proposed using lapsed funding - not just areas for rate support. He clarified that the presentation showed four items: Working Reserve

Account Lapse Contributions, Group Health and Life Benefits Fund Lapse Contributions, Central Services Rates Smoothing Appropriation Lapse Contributions, and State Insurance Catastrophe Reserve Account Lapse Contributions. The total amount for rate support was \$30 million.

Representative Josephson asked whether employees who were part of the centralization of services would be in one central place in Juneau or whether they would remain housed in their respective departments - essentially making the centralization an accounting change. He used the legislature's IT and HR divisions as examples in his query.

Mr. Steininger responded that employees remained on site at their agencies for certain services such as IT. While the services were still done on site, employees reported to a central office. For some areas, such as procurement, it was helpful to have the network effect of procurement officers reporting back to a central procurement agency to help with standards. The model worked for IT as well applying consistent policies and standards. The central agency could apply standards and resources moving resources between agencies when needed. Employees sat in their agencies but received support and standards from a central organization.

Representative Josephson commented that it sounded like Federalism. He was not sure the agencies supported the model.

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Representative Carpenter thought he had heard a significant amount of confusion. He asserted that the word complex inferred waste. He was unaware of any other private sector business or enterprise that would tolerate a management system where the complexity of the system did not allow an understanding of costs. He asserted that only government would mismanage \$700,000. He asked what authority was given to reduce complexity with a smoothing of costs with lapsed funds. He asked whether OMB would be submitting a report to the legislature in the next session about how it reduced complexity to better understand costs. He did not want to perpetuate a problem.

Mr. Steininger responded that OMB was seeking authority through an appropriation in the governor's budget. He explained that the smoothing was related to the potential

for an unanticipated cost. The Office of Management and Budget was attempting to set rates in advance. When trying to set rates during the budget development process in the summer of each year (a year and a half out from the start of the budget being developed), there was some uncertainty. Determining a cost base and the number of employees was constructed with certain assumptions in mind that could end up being wrong. Changes might be adopted in the legislative process; the labor market in the state might change; and the way in which programs were actually managed could change. All of these things could contribute to a change in the cost base.

Mr. Steininger continued that if the state had significantly more or significantly less employees to apply the rate to, it would change how much an agency would collect. He used IT as an example. If the IT rate was set based on an assumption of 17,000 employees, but the actual number of employees was 16,500 employees, IT would under-collect its rate. It would result in IT either being unable to provide services in the twelfth month of a fiscal year or significantly increasing its costs to agencies. He suggested that a variable billing rate would force the direct service agencies to have to deal with the resulting shortfall. The smoothing effect would allow certainty for agencies, and agencies would be able to provide good information to the legislature during the budget development process.

Mr. Steininger commented that the process was complicated. He noted the significant amount of uncertainty looking into the future. The Office of Management and Budget was trying to address the issue in a way that protected direct services to constituents while at the same time providing visibility into the true costs of providing services. At the end of the day, he wanted to make sure that the cost of IT services for the state was not exorbitant. A year from now he would like to be able to provide an update on rate setting, how rate smoothing funds were applied, and how management practices were applied. He hoped there would be less unanticipated supplemental requests in the future because of setting rates in advance.

Co-Chair Foster thanked the presenters.

^PRESENTATION: PROCUREMENT AND HR CONSOLIDATION BY THE
DEPARTMENT OF ADMINISTRATION

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KELLY TSHIBAKA, COMMISSIONER, DEPARTMENT OF ADMINISTRATION (via teleconference), introduced herself.

KATE SHEEHAN, DIRECTOR, DIVISION OF PERSONNEL, DEPARTMENT OF ADMINISTRATION (via teleconference), introduced herself.

THOR VUE, CHIEF PROCUREMENT OFFICER, PROCUREMENT AND PROPERTY MANAGEMENT, DEPARTMENT OF ADMINISTRATION (via teleconference), introduced himself.

LESLIE ISAACS, ADMINISTRATIVE SERVICE DIRECTOR, DEPARTMENT OF ADMINISTRATION, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR (via teleconference), introduced himself.

IAN SMITH, MANAGING DIRECTOR, ALVAREZ AND MARSAL (via teleconference), introduced himself.

Commissioner Tshibaka introduced the PowerPoint presentation: "Procurement and HR Consolidation." She indicated she would move through a briefing on procurement in each consolidation. She would leave some of the slides for member's information in the interest of time. She began with slide 2 which contained the status of four consolidations currently happening within the department. She reported procurement and HR were already completed. The Office of Information and Technology (OIT) consolidation and the consolidation of shared services accounting (SSOA) were in process.

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Commissioner Tshibaka turned to slide 3. She provided four reasons why the consolidation efforts were different from previous consolidations. First, the department invested in pre-consolidation assessments developed by subject matter experts. In particular, the department received assistance from Alvarez and Marsal with the procurement consolidation. They had a long history with other states and companies. They had worked with 70 of the Fortune 100 companies and had done work with Oregon, Rhode Island, the U.S. Postal Service, the City of Seattle, Kansas, and Wyoming.

Commissioner Tshibaka reported DOA had also employed a government structure. She explained that prior to the

present day it was unclear who made the decisions regarding things pertaining to DOA. Usually, DOA made decisions and imposed them on the rest of the departments which had not gone over very well. Currently, the department had a governance structure within DOA that gave the other departments a decision-making role in consolidation decisions that affected them. Going forward, regardless of who the commissioner was, the other departments would have a say in the decisions that DOA made that affected them.

Commissioner Tshibaka relayed that the department had also established service level agreements - contracts between DOA and each of the other departments. The contracts were customized between the Office of Procurement and the Division of Personnel in each of the departments, so they knew what to expect from DOA adding clarification to expectations. She indicated the consolidations were designed through a collaborative and inclusive process involving staff, stakeholders, and leaders in the other departments.

Commissioner Tshibaka explained how decisions were made on slide 4. Over 300 formal meetings had occurred over the last 2 years just for the consolidations. It did not include all of the informal phone calls, emails, and chats between departments. She reported that the governance structure was led by the Alaska Administrative Governance Counsel, five commissioners, and OMB. The governance counsel had been making some of the decisions at a higher level. Under the Alaska Administrative Governance Counsel there were four advisory committees: HR, Procurement, IT, and SSOA. Each advisory committee had high level representatives from each of the departments who were making some of the key decisions as consolidations moved forward.

Commissioner Tshibaka elaborated some of the key decisions included determining the way in which the state did procurement and the HR policies moving forward. There were working groups under each of the governance committees consigned to hammer out plans and policies. They informed the advisory committees allowing the information to bubble up to the governance counsel of commissioners and OMB to make final decisions. Everyone had visibility and a say in what was happening.

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Commissioner Tshibaka moved to slide 5. She turned the presentation over to Mr. Vue to discuss the details of the procurement consolidation. She relayed that procurement consolidation had its authority in AO 304 calling for the statewide consolidation of purchasing procurement. The State of Alaska previously used a decentralized procurement model. While that practice might provide some just-in-time flexibilities for small organizations with little need for oversight, the industry norm in standards for large organizations was a centralized purchasing model - especially for those organizations the size of Alaska.

Mr. Vue reported the state's previous decentralized model presented some challenges. For example, there were several redundancies. There were multiple employees spending time purchasing the same thing. He suggested it would be similar to two members of the same household running out to buy the same item. There was significant waste in effort.

Mr. Vue also conveyed that there were significant difficulties in sharing lessons learned and best practices, which were coupled with the lack of leverage in volume spending. Consolidation for procurement into one central division provided various opportunities in terms of tangible hard cost savings. There was the elimination of some of the redundancies he had already mentioned, the ability to leverage total spending power through the state's volume purchasing, and better allocation of personnel resources. For example, each department previously had an employee doing procurement training for their respective department. By centralizing procurement only one full-time employee (FTE) would be needed to provide statewide procurement training for all of the departments.

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Mr. Vue advanced to slide 6. Consolidation activities started with an independent third-party assessment which was the Alaska Administrative Productivity and Excellence (AAPEX) project. The assessment was a review of purchasing, warehousing, supply chain, and inventory management activities within the state. As part of the review process the department looked for ways to achieve greater efficiencies in costs. It examined job classifications of employees using industry and best practices and lessens

learned from comparable spend states like Ohio and Louisiana.

Mr. Vue summarized some of the operational challenges of the previous decentralized procurement model on slide 7.

Mr. Vue moved to slide 8. He reported there was a detailed and meticulous procurement consolidation, implementation, and communications strategy which considered effective change of management best practices by looking at behavioral norms through change and obtaining key stakeholder inputs. The slide showed the high-level phase strategy the department implemented. He assured members there was a great deal of detail that went into each of the phases.

Mr. Vue turned to slide 9: "Procurement Consolidation: Early Adopters." He reported the department had been very mindful of unknown variables that might negatively impact the consolidation. The department took every opportunity to learn the landscape ahead of time. The department identified known issues and concerns to avoid large mistakes during consolidation. He wanted any mistakes that were made to be manageable. He also wanted to reduce the risk to the State of Alaska. The state transitioned three of its smaller procurement departments early as part of the early adoption program. The phased approach allowed the state to obtain a real-world knowledge on all things related to consolidation including technical issues and concerns; and emotional, psychological, and behavioral models that could impact change and consolidation. The goal was to learn from the process making the transition of the rest of the executive branch more streamlined.

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Mr. Vue advanced to slide 10: "Procurement Consolidation: PCNs were Selected Working with Departments." He relayed the department started with 185 FTEs that were identified from the AAPPEX Assessment showing employees who performed some form of procurement functions. The Department of Administration looked through the duties and responsibilities related to each of the PCNs and subsequently excluded some FTEs that only had marginal connections to procurement. They also looked at situations where administrative officers and administrative assistants

happened to make purchases with a credit card as a government purchase card holder.

Mr. Vue reported that after conducting the analysis, the state was left with 113 employees, 18 of whom were already DOA employees. From a list of 113 FTEs, DOA sent out a survey for each specific PCN and asked the departments to analyze and provide an initial allocation of the percentages of duties that each PCN spent conducting procurement functions. The Department of Administration followed up with one-on-one meetings with each department to come up with the finalized employee count of 62 state employees dedicated strictly to procurement and procurement related functions. Excluding DOA's existing 18 employees, the remaining 44 positions were transferred into DOA as part of the consolidation effort.

Mr. Vue addressed the question of how the procurement consolidation would save money on slide 11. Consolidations had cost savings implications on multiple fronts. First, he noted personnel reductions as a result of better efficiencies. He also noted savings resulting from a better utilization of time and labor through improved processes. There was also a real cost savings opportunity related to spending and strategic sourcing. He explained that strategic sourcing was a form of volume purchasing. He mentioned that the Alvarez and Marshal assessment prior to consolidation found an opportunity for cost savings through strategic sourcing which ranged from a low end of \$98 million to a high end of \$230 million over the following 5 years. Some of the detail could be seen later in the slide set. He relayed that the various types of spend in Alaska could be lumped into several categories. By reducing the ad hoc department purchases of the same products and leveraging them through category management, Alaska had the potential to achieve significant savings through various forms and procurement methods.

Mr. Vue continued that the same analysis accounted for the fact that some products were more difficult and costly to source in Alaska due to the state's geographic location. Generally, some products had high transportation costs coupled with low market resale value. He mentioned sand, lubricant, and certain types of foods as examples.

Mr. Vue continued to slide 12: "Procurement Consolidation: Methodology: In-Scope Spend." He reported that there were

things that were excluded from the cost savings model. He noted instances in which procurements or purchases where competition would not provide better value for the state. Another example was a situation in which a product was specifically excluded from having to go through a formal competitive process. There were also things that were exempt such as items purchased with pass-through grants.

Mr. Vue turned to slide 13 which provided a summary of the potential savings that could be achieved through procurement consolidation by leveraging the category spend model. He was available for questions from members.

[2:47:52 PM](#)

Representative Wool referred to slide 10 where 185 PCNs were analyzed and 113 PCNs were found to be doing procurement. The department reduced the number to 62 PCNs. He asked if 51 PCNs were eliminated.

Mr. Vue replied that the 113 employees were doing some form of procurement-related work. However, some of them were also doing administrative tasks such as checking the mail. He noted that it was not fair for the gaining department to take personnel and leave everything else for the losing department to figure out. He reported that when he looked at the 113 employees, he considered all of the other things an employee might be doing outside of procurement - tasks that did not simply disappear as a result of consolidation. He talked directly with departments to determine the proper resource allocation as far as their needs for procurement. The remaining positions were left within the department to be reallocated for the additional remaining tasks.

Mr. Vue continued that the 18 existing DOA employees and the 44 employees that were transferred to the new centralized procurement organization, made up the 62 PCNs. He indicated 51 PCNs would remain within their departments to perform tasks of one form or another.

Representative Wool clarified that the 51 PCNs that remained within their departments would be given additional work or would be lost or reduced to parttime. He thought that would be the way to gain efficiency. He asked if the goal related to billing out each department was based on a percentage (1.5 percent) of the procurement purchase. In

other words, he wondered if billing would be based on how much was procured rather than hourly wages related to PCNs.

Mr. Vue thought the confusion regarding the percentage of costs associated with procurement activities was more in line with DOA's administrative fee charged to vendors when the department organized and structured statewide contracts for use by all departments. He was not under the impression in his discussions with departments that there would be a surcharge per employee for the cost of conducting procurement. However, he was not entirely in tune with all of the budgetary aspects that occurred on the back end. He would have to get back to the committee.

Representative Wool recalled the term, "Vendor fee" being added onto the billing invoice. He was not sure how the process worked.

[2:53:49 PM](#)

Representative Rasmussen referred to slide 13. She asked about the average of the in-scope spend for FY 18 and FY 19. She wondered why the information was not more recent. She also noted that in the grid he had listed the scope-spend average. The sample annual savings ranges were listed above. She wondered how he arrived at his number of possible savings. Mr. Vue replied that the data provided in the report was what was most current at the time when the department initially provided the information to the third-party consultant. He was sure subsequent data could be provided. However, the third party's analysis had concluded. He asked the representative to restate her second question.

Representative Rasmussen was trying to understand the range and whether it was a savings. She wondered how the range of savings was determined. Mr. Vue deferred to the representative from Alvarez and Marshal.

Mr. Smith answered that there was an extra column on the original presentation that had estimated savings for each of the in-scope spending averages across FY 18 and FY 19. The column was removed at the last minute. The last comment regarding sample annual savings ranges by category should have been removed from the slide. Based on the in-scope analysis that the company did in terms of addressable spend - spend that could be influenced through aggregation or

disaggregation if centralized spend had been with a single vendor for too long. Through the analysis he came up with a range of \$25 million to \$45 million in potential savings per year. Over 5 years the range of savings was estimated between \$98 million to \$230 million. The analysis had been completed about a year prior.

Representative Carpenter asked if the projected savings was within DOA or across all agencies. Mr. Smith replied that it was statewide spend. Representative Carpenter suggested he should expect to see the savings across multiple department budgets. Mr. Smith responded, "Correct."

[2:58:40 PM](#)

Representative Johnson had gone through something similar with the city [City of Palmer]. One of the goals was to allow for different programs to be charged. She wondered if it was a goal of the centralization. She provided an example.

Mr. Vue clarified that Representative Johnson was asking whether there was a way to capture various grants. He commented that grant funding and the sources of grant funding were not necessarily captured in procurement. The legislature had specifically excluded grants as defined in statute. He believed that there was a model for capturing grants but could not speak to it. He turned the presentation over to Ms. Sheehan.

Ms. Sheehan moved to the discussion of the HR consolidation and provided a history beginning on slide 14. The state's procurement consolidation was done through Administrative Order (AO) 305 mandating that all HR positions be transferred from the agencies to centralized operations within the Division of Personnel and Labor Relations (DOPLR). Human Resources was partially centralized and partially decentralized. She relayed that mostly employee relations and recruitment were in the agencies and centralized payroll fell within the Division of Personnel and Labor Relations. What the administration found was that there were inconsistencies among agencies. Sometimes there were 14 different ways of doing things which created inefficiencies. As a result, the AO consolidated HR in four phases.

Ms. Sheehan turned to slide 15 to discuss Phase I of the HR consolidation. Phase I was a heavy lift, as the division had work groups that looked at all of HR's functional areas including employee relations, investigations, and recruitment. Agency HR staff and administrative staff came together to map workflow processes and find inefficiencies and inconsistencies. Next the group identified the best practice, workflow, and process. A new organizational structure started to evolve. The group created centers of expertise, operation centers, and HR business partners.

Ms. Sheehan advanced to slide 16 to review Phase II of the consolidation. Phase II was developed by a leadership team which included HR staff, Division of Personnel staff, agency administrative staff, an administrative services director, a division operations manager, and the deputy commissioner of DOA. Together, the group made decisions about the structure, the work that belonged in each of the operations centers and centers of expertise. The group also completed a survey for all HR staff regarding their top three preferences of work and the department they wanted to work in. The group was able to place over 90 percent of the employees into one of their preferences.

[3:03:40 PM](#)

Ms. Sheehan continued to slide 17: "Human Resources Consolidation: Phase III: Implementation Phase (Completed February 8, 2021)." Phase III was completed on February 8th. Phase III involved assigning employees to their new positions and was a transition phase. Employees were reporting to the Division of Personnel. The division had service level agreements in place with each department after having multiple meetings to review them. The division also had town hall meetings to keep everyone informed through the transition.

Ms. Sheehan provided an overview of how the department selected certain PCNs on slide 18. She met with each department and talked to commissioners about the consolidation process and the advantages that accompanied the project. She had many meetings to determine which PCNs would be brought to the division and which ones would stay in the different agencies. The service agreements were crucial, as they clearly defined the work the Division of Personnel would provide, the work each department would provide, and which PCNs were needed to get the work done.

Because the state had human resource business partners, there was at least one PCN in each department belonging to the department rather than the Division of Personnel. She explained that while the division did not end up bringing over every PCN as originally planned, the majority of HR PCNs were brought over. She reiterated that the decisions were made in discussions with each agency.

Ms. Sheehan reviewed why the proposed HR consolidation was different than prior consolidation attempts on slide 19. She had been in a leadership role in DOPLR since 2007. She started with the department shortly after the HR consolidated in 2003. In 2012 the division decentralized. Presently, the division was consolidating HR again. She explained that the difference had to do with learning several lessons over the years. In 2003, DOA wanted more control, but the change came with inconsistencies. In 2012, it was determined that the Division of Personnel did not understand the mission and needs of each department and did not have anyone physically sitting in the departments to consult. She thought DOPLR was taking a better approach in the current consolidation.

Ms. Sheehan explained that in the current consolidation the division clearly articulated the duties of each PCN and would assign a human resource business partner in each department to take on new jobs the division had not had time to complete before. The human resources business partner would start doing things such as strategic workforce planning and leadership development - things that DOPLR had previously let fall to the wayside because of being busy with day-to-day issues. She also noted the HR staff assigned to each department could physically remain within their department.

Ms. Sheehan reported other differences in the current consolidation process including the division looking at best practices throughout the country and paying attention to how other large corporations were structured. The division also got input and feedback from stakeholders including HR staff and the departments. The consolidation felt significantly different to her as someone who had been a part of several. She was encouraged that the consolidation would be successful.

[3:08:14 PM](#)

Ms. Sheehan discussed the improved HR services on slide 20. She relayed that the HR business partners would do things that were not being done in every department currently. The division also had an HR investigations unit and more onboarding. The division would have a strategic recruitment unit that would do talent acquisition management actively recruiting specifically where the division had difficulty finding staff. The improved HR services also included key performance indicators which had not been used prior. She was available for questions.

Co-Chair Foster invited the commissioner to make comments. Commissioner Tshibaka indicated Mr. Isaacs would be presenting the remainder of the presentation.

Representative Johnson asked if the funds would lapse back into the general fund or whether they would be tied to the reverse sweep. Mr. Steininger asked the representative which funds she was referring to. Representative Johnson asked if the savings resulting from efficiencies would go into the general fund or whether the funds would be tied to the reverse sweep. She wondered if the consolidation would help with the state's budget deficit.

Mr. Steininger replied that it depended on the appropriated source of money. He indicated that any savings of an unrestricted general fund appropriation for an agency would lapse back into the general fund. If there was a savings for an appropriation for a specific fund, the money would lapse back into that specific fund. Looking forward, as the initiatives matured over time and truly saved money, the state would adjust its appropriation request. If the state was able to purchase something for significantly less, the administration would look to make strategic budget changes to be in line with actual expenditures. In order to make changes in the state budget, the savings had to be realized first. Any savings that were implemented in the current or following fiscal year would lapse back into the fund from which it was appropriated. Funds would not get tied up in the reverse sweep unless they were already subject to it. If the state saved money in a federal program, the money would either get returned to the federal government or create more room within the federal grant.

Representative Carpenter referred to slide 13 and the list of potential savings. He wondered if the numbers were reflected in each of the department's budgets or whether

the funds were being requested in the hopes of finding savings.

Mr. Steininger could not speak to the specifics of slide 13. The Office of Management and Budget was not reflecting savings as a result of procurement consolidation in the FY 22 budget. The savings would not be included until they were actually realized.

[3:14:03 PM](#)

Commissioner Tshibaka commented that she had another slide that talked about the budget impacts for the procurement and HR consolidation. It detailed how the PCN transfers would be affected. The administrative services director wanted to walk the committee through slide 22 related to the topic.

Mr. Isaacs moved to slide 22: "F 22 DOA Budget Impacts of OPPM and HR Consolidation." The overall impact of the two consolidations on DOA's budget would be an interagency authority increase of \$11.1 million. It represented a duplicative fund source where the other departments would retain their budget and pay DOA for the services rather than paying for them directly. The middle of the slide showed the breakdown of the two different sections. He stressed that through the reimbursable services agreement (RSA) process the other departments would be paying DOA via interagency receipts. He noted that 45 rather than 44 PCNs were being transferred over. He elaborated that due to the timing of the proposals one PCN was left out of the governor's originally proposed numbers but was reflected in the governor's amended budget proposal. Netting all of the PCNs together, the Office of Procurement and Property Management would receive 45 PCNs and 40 PCNs would be assigned to the Division of Personnel.

Representative Rasmussen asked Mr. Isaacs to review the PCNs that were not being rolled into DOA. Mr. Isaacs clarified that Representative Rasmussen was referencing the 51 PCNs. Representative Rasmussen responded, "Correct." Mr. Isaacs indicated the PCNs would remain in their respective departments.

[3:17:50 PM](#)

Representative Wool referenced people who stayed in their departments and enterprise employees whose positions were being centralized. He asked if the same process would occur within procurement. He queried about the 51 PCNs. He suggested that for some departments procurement was very unique. He wondered whether procurement was analogous to OIT regarding enterprise and line of business.

Mr. Vue responded that Representative Wool was fairly accurate. He indicated the employees that would be transferring from the departments would still be the primary point of contacts for their departments, as they understood the unique challenges, needs, products, and services for their departments. The overall goal was to maintain the designated teams to support their respective department. He noted there was the overarching enterprise, the State of Alaska, and its statewide team which would manage statewide contracts, training, policies, oversight of contracts, and auditing of contracts. The enterprise would ensure uniformity and consistency of procedures being implemented throughout all departments which was the goal of the plan.

[3:20:12 PM](#)

Representative Edgmon asked about the potential loss of jobs and whether Juneau would be hit the hardest given the percentage of jobs in the capital city.

Mr. Vue responded that the reduction of jobs was not the intent of the consolidation effort related to procurement. Rather, the purpose was to leverage the state's expertise, resources, and processes. He would depend on a department's expertise and their unique understanding of their mission to best allocate and distribute personnel resources. He reemphasized that the intent of the consolidation was not to cut jobs. He suggested that natural attrition could occur upon an employee's retirement or a job change. It would be up to each department to determine if a position was needed to meet its mission. The intent on reducing jobs was not part of the effort.

Representative Edgmon supported making things more efficient and providing services in a timely manner. However, he thought there would be a reduction in personnel with the consolidation. He commented that the change fit neatly into the confines of executive orders and an

appropriation bill. He wondered if a policy bill was needed in order to make the change.

Mr. Vue suggested the need for whether there should be some policy directives from the legislature was not necessary from his reading of the administrative order. He thought the administrative order made the responsibilities clear and that the implementation strategy fell within the executive branch. The administrative order laid out objectives including a cost savings and a streamlining of redundancies. He argued that the administrative order and the authority to implement it fell within the purview of the order.

[3:24:12 PM](#)

Representative Edgmon thought the change was a massive undertaking. He wondered why it had not been done prior to the present. Mr. Vue indicated discussions had occurred in past administrations. He could not speculate the intent of previous administrations and why a change was not implemented earlier. Representative Edgmon asked if the change was incentivized with COVID funding. Mr. Vue responded in the negative.

Representative LeBon referred to slide 13 which he thought provided a list of potential savings categories. He asked for examples of savings already achieved within the categories. Mr. Vue relayed that the administration wanted to capture immediate savings. However, it was early in the consolidation. There were certain contracts related to freight and shipping the administration was pursuing for a cost savings. There were other source contracts related to IT equipment such as laptops. He indicated that the list of savings were informed projections related to consolidation efforts in the out years. Representative LeBon commented that the administration likely already experienced a cost savings in travel in the past year.

[3:27:10 PM](#)

Representative Carpenter turned to the subject of contracts. He wondered if contracts were being renegotiated or whether the administration was finding efficiencies in contracts as they had been written. He asked, if the state were to find a savings in a contract, whether it would appear as a reduction in the budget. Mr. Vue replied that

if there was an immediate renegotiation of a particular contract and an immediate reduction in the cost of the contract, there would likely be a corresponding reduction in the budget. He deferred to a budget expert.

Representative Carpenter noted that someone had predicted a large amount of potential savings. He suggested that either the budget would reflect the anticipated savings through a reduction in the budget, or there would be a significant amount of lapsed funds at the end of the year. He wondered about the budget process and how the savings would be handled - either through lapsed funds at the end of the year or through budget reductions. He thought the legislature would be encouraging the cost savings by reducing the budget. He was not understanding the process of projected savings and asked for clarification.

Commissioner Tshibaka explained that since savings was projected out into the future, the administration did not expect to see \$98 million to \$230 million in savings in the following year. There would be a glide path up that the administration anticipated based on what Alvarez and Marshal had provided. She further explained that DOA would be capturing and monitoring the savings by department and spend category. However, DOA did not have control over other department budgets. As DOA was reducing the spend in other department budgets, departments would still determine their budgets. If a department did not have a commensurate reduction, it could spend the money DOA saved them on something else. She had seen such a pattern within the federal government. She suggested that it would be something to watch for in the future.

Representative Carpenter indicated he would like to see an assessment of the projections on the slide compared to actual savings in the following year broken down by department. He wondered if the information would be available prior to the next budget cycle.

Commissioner Tshibaka expected close coordination throughout the year between the chief procurement officer and OMB regarding actual realized savings and the development of budget proposals going forward.

[3:33:20 PM](#)

Representative Edgmon pointed out the projected savings in the far right-hand column on slide 13. He asked what period of time the numbers encompassed. He wondered if they reflected multi years. Commissioner Tshibaka could not see what column Representative Edgmon was referring to. She asked him to tell her the numbers in the far right-hand column.

Representative Edgmon was referring to the column on the right of slide 13. Commissioner Tshibaka asked what numbers Representative Edgmon was looking at. Representative Edgmon responded that he was looking at \$416.8 million and \$80.2 million down the column. The total of the column equaled approximately \$800 million which he remarked was a significant number. He wondered if the numbers were over a 3-year period, a 5-year period, or a 10-year period. Commissioner Tshibaka deferred to Mr. Smith.

Mr. Smith explained that edits had been made to the slide and did not think it was as clear as it could have been. He clarified that the words "sample annual savings ranges by categories included" was not removed. Previously, there had been a column that was removed. The remaining right-hand column was the average spend over the periods of FY 18 and FY 19. In other words, it was spending he thought he could influence with improved sourcing practices. He was not talking about saving \$700 million. He clarified that out of approximately \$800 million he might be able to conservatively achieve an annual savings of between \$25 million to \$45 million.

Representative Edgmon commented that about 70 percent of agency spending was tied to personnel. He had heard earlier that the effort, which was encouraging in terms of achieving savings and efficiencies, was not intended to reduce personnel. Rather, it was intended to reduce other costs. He asked if he was correct.

Commissioner Tshibaka responded that when she talked about targeting \$98 million to \$230 million in reduced spend through strategic sourcing over 5 years, it did not include reducing a single PCN. It was simply from changing the way the state did procurement. If the legislature were to receive a full analysis from Alvarez and Marshal on how they developed their methodology, it was extremely conservative. She was looking at about 3 percent of the

state's overall procurement spend. She reemphasized she was not looking at eliminating a single PCN.

3:36:31 PM

Representative Edgmon noted having heard a presentation from the department a few days prior that about one-third of the state's workforce could be teleworking. He suggested that by combining such an effort with the effort by Commissioner Tshibaka there was a quiet revolution taking place. He noted the potential for reduced leasing costs with people working from home and the efforts being made by DOA. He asked the commissioner how she would sum up the efforts to an audience such as the chamber of commerce.

Commissioner Tshibaka was compelled to move home to serve Alaskans by addressing some of the crisis' that many people were trying to tackle. One of the ways she could help was to apply her skill set to making government work. Members were seeing the results of the efforts by the staff at DOA working diligently over the prior two years. She continued that there were different ways of modernizing the state's business practices where cost savings could be found along with performance improvements transforming how the state did business. The state would also improve how it served Alaskans without gutting, thrashing, or slashing hard-working Alaskans. The efforts were intended to radically improve how Alaska government performed its work. Over time, costs would drop and services would improve. Some of the presentations were showing glimpses of improvements which was really exciting.

Representative Edgmon replied that as a policy maker, part of his job was to ensure that the changes were not coming at the cost of providing equitable services. He mentioned reducing DMV offices and privatizing services as an example. He wanted to have a balanced perspective, know more about the changes, and be able to provide a balanced perspective for folks that wanted more information.

Commissioner Tshibaka responded that the proposals for the DMV were offered in an attempt to help provide a savings and an idea for consideration. It was an idea she thought could be offered without substantially reducing services to Alaskans. She had been asked to present several ideas of ways to bridge the budget gap the state faced. The way the administration offered proposals to the legislature as

policy makers for consideration was through the budget proposal.

Co-Chair Foster thanked the commissioner and other presenters. He suggested recessing until 7:00 p.m. Representative Josephson noted he would not be available at 7:00 p.m. due to a subcommittee meeting. Co-Chair Foster was trying to avoid interfering with subcommittee meetings.

[3:41:43 PM](#)

AT EASE

[3:42:57 PM](#)

RECONVENED

Co-Chair Merrick called the meeting back to order and indicated the committee would be continuing with the presentation by DOT.

^PRESENTATION: DIVISION OF FACILITIES SERVICES BY THE
DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

[3:43:17 PM](#)

DOM PANNONE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR (via teleconference), introduced himself. He indicated he could proceed with the presentation.

[3:44:12 PM](#)

AT EASE

[3:44:56 PM](#)

RECONVENED

Co-Chair Merrick invited Mr. Pannone to continue.

Mr. Pannone introduced the PowerPoint presentation: "Division of Facilities Services." He would discuss some upcoming changes proposed for FY 22. He began with slide 2: "Division of Facilities Services." The division was an enterprise service that had been around since FY 19. There were two parts to the division. The first part was statewide public facilities which had to do with vertical construction, largely capital building projects, and included mechanical engineers, professional architects,

engineers, and project managers. The second part of the division was facilities maintenance and operations. The section was responsible for keeping the state's buildings running including day-to-day repairs and large repairs across the state. The state's Computerized Maintenance Management System (CMMS) was also housed within the division. He would discuss the system in more detail in the following slide.

Mr. Pannone moved to slide 3: "Computerized Maintenance Management System (CMMS)." He explained that at the core of the Division of Facilities Services was the CMMS. It codified the division's business processes and allowed all of the information of the division's activities to be captured up front and automatically. He further explained that when the division had maintenance technicians working on a building, they entered the work orders from the CMMS. Building occupants entered orders into the system and the information arrived automatically on devices for maintenance personnel. When a maintenance person bought parts or serviced an appliance, the information was logged into the system and the cost was captured and applied to the building, the location, and all of the related activity. The system allowed for the division to have intelligence and reporting on what it was doing. It provided visibility and was a big driver. There were several modules within the system that had not always been available in the past. The division used the system when it was trying to allocate small portions of deferred maintenance. The information helped to determine the best way to spend funding across the state. The system allowed for efficiencies such as doing maintenance projects that were similar at the same time. For example, the state could use one contractor and one contract for both sites. As the division on-boarded other departments, it captured their data to have all of the information centralized allowing for a central enterprise decision-making product.

[3:48:44 PM](#)

Mr. Pannone advanced to slide 4: "Current and Future Service." He relayed that the department was currently providing services to several departments. The division had service level agreements with each of the departments listed including the Alaska Court System. In the agreements the division negotiated what kind of services the division would provide and the corresponding expectations of each

entity. As a centralized service, the division did not remove the decision-making process from the customer agencies. They still made a significant number of decisions about what happened to their buildings and about the level of services they needed based on their budget and business requirements.

Mr. Pannone continued that the division provided for carve-outs and off-ramps for facilities that might not fit the enterprise service model. For example, specialty labs or a remote cabin belonging to DFG might not be good fits. The division allowed carve-outs for departments to be able to continue managing their line of business and specialty facilities. The division was looking at onboarding two additional departments by the beginning of FY 22 - the Department of Natural Resources (DNR) and the Department of Environmental Conservation (DEC). The division was also continuing to define what a service model would look like for DFG, the Department of Military and Veterans' Affairs (DMVA), and the Department of Corrections (DOC). The division wanted the enterprise to work for all parties.

Mr. Pannone reported that in FY 22 the division was looking to consolidate another centralized function, leasing and public building functions from DOA that OMB discussed earlier. He would provide further detail on the following slide.

Mr. Pannone turned to slide 5: "Lease Management and Public Building Fund Facilities." The slide provided an outline of the budgetary components as they existed in the current fiscal year: 2021. In FY 22 the division would be moving the single budgetary component that was currently the Division of Facilities Services into its own separate results delivery unit or separate appropriation. The division would then combine the budgetary components from DOA creating one cohesive division. The change would provide enterprise-wide visibility of the operations and maintenance of the state's buildings, leases, leased buildings, and space management as a whole. He suggested that as the state moved into a post-pandemic time the state needed to evaluate the space it required and the most cost-effective options.

[3:51:54 PM](#)

Mr. Pannone moved to slide 6: "Facilities Budget Alignment." He explained that another group of transfers took place in the FY 22 budget with the advent of the Division of Facilities Services and the increased accountability of funds. The division had identified a handful of buildings that DOT no longer occupied but was paying for their maintenance and operations. Doing so provided no benefit to the mission of the department and did not house any of DOT's programs. The buildings were housing other agencies' programs because historically they had occupied the space. In identifying the space, the division had no decision-making ability to determine if the agencies needed the space. To resolve the issue the division transferred the historical UGF from DOT's budget to the occupying agencies in the FY 22 budget in order to charge the occupants the DOT lease rates. The group of buildings he was referring to would become part of a consistent charging model. The occupying agencies' budgets would reflect the true costs of their programs. They could make decisions into the future as to whether they continued to need the space and whether their dollars needed to be spent on the space. He relayed that \$1.1 million of the costs and funds being moved paid for utilities. Historically, if the cost of utilities went up and DOT bore those costs, it ate into other portions of DOT's budget lowering service. In the future if utility rates increased, the agencies would have control over who turned the lights on and off. It would be the responsibility of the occupying agencies to manage within their budgets. The rates were based on actuals from 2 years prior and was a tested methodology for rents of DOT buildings.

Co-Chair Merrick reviewed the agenda for the following day and thanked the presenters.

HB 69 was HEARD and HELD in committee for further consideration.

HB 71 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

[3:55:07 PM](#)

The meeting was adjourned at 3:55 p.m.